

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clarksville-Montgomery County Industrial Development Board
Clarksville, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Clarksville-Montgomery County Industrial Development Board (the Board), component unit of Montgomery County, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Board as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial

reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stone Rudolph & Henry, PLC

December 28, 2011

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2011

Our discussion and analysis of the Clarksville-Montgomery County Industrial Development Board's (the Board) financial performance provides an overview of the Board's financial activity for the year ended June 30, 2011. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

- The Board's total net assets increased more than \$238,000 as a result of this year's activities.
 - Most of this increase was used to pay down the principal of notes payable (as budgeted).
- The Board incurred industrial park development expenses of over \$27 million. (Nearly all of this was funded by State grants.)
 - A large majority of these expenditures were related to the Board's ongoing oversight of site improvements and infrastructure development for the Hemlock Semiconductor, LLC site.
- This year's recruitment and retention efforts resulted in two major expansions:
 - Hemlock Semiconductor, LLC development of plan to increase capacity including an estimated \$1B investment and 300 new jobs
 - Visant/Jostens relocation and expansion (\$47M investment and 375 new jobs)
- The County provided the full operations funding for the Board for fiscal 2010-2011.

Required Financial Statements

The financial statements of the Board report information about the Board using generally accepted accounting principles. These statements offer financial information about its activities. The Governmental Fund Balance Sheet / Statement of Net Assets include all of the Board's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations (liabilities). All of the current year's revenues and expenses are accounted for in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities. This statement measures the success of the Board's operations and can be used to determine if the Board recovered all its cost through the funding provided by the Montgomery County government.

Financial Analysis of the Board

The financial statements of the Board include only activities of the Board. In addition to the actual cash received and expended, the Industrial Development Board receives the benefit of private dollars through the marketing efforts of the Aspire Clarksville foundation. For fiscal year 2011, Aspire Clarksville spent over \$462,500 toward economic development efforts, with more than \$178,000 representing direct industrial development efforts benefiting the Board's activities. Over time, increases or decreases in fund balance / net assets can show whether the Board is improving or deteriorating. However, other non-financial factors such as economic conditions, property available for sale, the focus of the Aspire Clarksville agenda and changes in legislation and the local legislative agenda should be considered.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2011

Fund Balance / Net Assets

One of the most important questions asked about the Board's finances is "Is the Board as a whole better off or worse off as a result of the year's activities?" The Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities report information about the Board's activities in a way that will help answer this question. An increase in net assets is an indicator that the Board is improving.

In order to more clearly compare with the financial performance of the previous year, summaries of the Statements of Net Assets are presented in Table A-1. As you can see in the table below, total net assets increased by more than \$238,000. This increase in net assets was from the operations of the Board and intended, in large part, to be used in reduction of principal on non-current liabilities (note the 14% reduction from fiscal year 2010). By far, the most significant changes from the fiscal year 2010 statement are related the Board's state-funded industrial site and infrastructure development. This work has largely no effect on the net assets of the Board but is evident in the amount of the Board's State Grants Receivable and Accounts Payable. At the end of fiscal year 2011, this amount was over \$8.2 million less than FY10.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF NET ASSETS (IN THOUSANDS)
JUNE 30, 2011 AND 2010
TABLE A-1

	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<u>ASSETS</u>				
Current Assets	\$ 4,335.8	\$ 9,133.6	\$ (4,797.8)	-52.5%
Notes Receivable	3,376.2	4,161.9	(785.7)	-18.9%
Capital Assets (Net)	1,899.4	1,967.8	(68.4)	-3.5%
Property Held for Sale or Lease	14,596.7	14,673.4	(76.7)	-0.5%
TOTAL ASSETS	\$ 24,208.1	\$ 29,936.7	\$ (5,728.6)	-19.1%
<u>LIABILITIES AND NET ASSETS</u>				
Current Liabilities	\$ 6,796.9	\$ 12,499.0	\$ (5,702.1)	-45.6%
Non-Current Liabilities	1,610.1	1,875.4	(265.3)	-14.1%
TOTAL LIABILITIES	8,407.0	14,374.4	(5,967.4)	-41.5%
Net Assets Invested in Capital Assets	214.0	210.9	3.1	1.5%
Unrestricted Net Assets	15,587.1	15,351.4	235.7	1.5%
TOTAL NET ASSETS	15,801.1	15,562.3	238.8	1.5%
TOTAL LIABILITIES AND NET ASSETS	\$ 24,208.1	\$ 29,936.7	\$ (5,728.6)	-19.1%

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2011

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities

While the Governmental Fund Balance Sheet / Statement of Net Assets shows the change in financial position of net assets, the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance / Statement of Activities details the nature and source of these changes.

In order to more clearly compare the financial performance to the previous year, summaries in the format of a Statement of Activities are presented in Table A-2 below.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED STATEMENTS OF ACTIVITIES (IN THOUSANDS)
JUNE 30, 2011 AND 2010
TABLE A-2

	2011	2010	Dollar Change	Percent Change
Montgomery County Subsidy	\$ 624.6	\$ 624.6	\$ -	0.0%
Lease and Other Income	360.8	369.3	(8.5)	-2.3%
Gain from Assets Sold	159.3	-	159.3	100.0%
ASPIRE Clarksville Grants	178.6	132.6	46.0	34.7%
State Grants	27,240.3	31,438.1	(4,197.8)	-13.4%
Non-Operating Revenues	14.8	19.5	(4.7)	-24.1%
Total Revenues	<u>28,578.4</u>	<u>32,584.1</u>	<u>(4,005.7)</u>	-12.3%
Operating Expenses	931.9	748.3	183.6	24.5%
Interest Expense	110.0	109.7	0.3	0.3%
Industrial Park Development	27,297.7	31,597.0	(4,299.3)	-13.6%
Total Expenses	<u>28,339.6</u>	<u>32,455.0</u>	<u>(4,115.4)</u>	-12.7%
Change in Net Assets	238.8	129.1	109.7	85.0%
Contributions from City and County	-	66.2	(66.2)	-100.0%
Net Assets - Beginning	15,562.3	15,367.0	195.3	1.3%
Net Assets - Ending	<u>\$ 15,801.1</u>	<u>\$ 15,562.3</u>	<u>\$ 238.8</u>	1.5%

Operating revenue for the Board is generated almost entirely by the County Government. In 2011, County funding remained unchanged. The most noteworthy difference in the activities of the Board from 2010 is by far the amount of industrial park development costs that were funded by State Grants. The most significant of these costs were those related to fulfilling site and infrastructure development obligations to Hemlock Semiconductor, LLC (nearly \$27 million). Other state-funded industrial park development projects included the completion of sewer upgrades to the Conwood, LLC site (\$107,000) and electrical service upgrades to the Avanti Corporation facility (\$24,000).

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2011

Other less noteworthy differences from 2010:

- The increase in Aspire Clarksville grant revenues due to the volume of Aspire initiatives performed (related to increases in operating expenses which usually nullify any potential impact on the Board's net assets).
- Gain on the sale of nearly 13 acres of original industrial park land in accordance with a 2006 option agreement that was exercised in the fiscal year.
- The increase in operating expenses due mostly to the addition/upgrade of Board staff and their related industrial recruitment efforts. These were made possible by increases in funding from the County (in fiscal year 2010) and Aspire Clarksville.

Overall, the increase in net assets was a bit more than anticipated for the year due to the gain on the sale of industrial park land. This enabled the Board to reduce the principal on long-term liabilities from this year's operations as planned.

Budgetary Comparison Schedule

The Budgetary Comparison Schedule reports the variances between actual revenues and expenses versus the Board's budget. It provides information on the Board's financial performance as compared to expected performance at the beginning of the reporting period.

The Board adopts an Operating and Capital Expenses Budget to assist in planning and forecasting for the fiscal year. The Budget is approved first by the Industrial Development Board and then by the County. It is in effect for the entire fiscal year. Management uses the budget as a planning tool for the coming year. A Condensed Budgetary Comparison Schedule is shown below in Table A-3. The Board ended the fiscal year with operating expenses 5.1% under budget and operating revenues 4.2% over budget. These favorable variances were more than offset by unbudgeted (and Board approved) Project Expenses that were not funded by state grants.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2011

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
CONDENSED BUDGETARY COMPARISON SCHEDULE (IN THOUSANDS)
JUNE 30, 2011
TABLE A-3

	<u>Budgeted</u> <u>Amounts</u>	<u>Actual</u> <u>Amounts</u>	Variance Favorable (Unfavorable)
Revenues			
County Funding	\$ 624.6	\$ 624.6	\$ -
Other Revenue	346.8	534.9	188.1
ASPIRE Clarksville Grants	313.0	178.6	(134.4)
State Grants	-	27,240.3	27,240.3
Total Revenues	<u>1,284.4</u>	<u>28,578.4</u>	<u>27,294.0</u>
Expenses			
Operating Expenses	1,098.1	1,041.9	56.2
Project Expenses	-	27,297.7	(27,297.7)
Total Expenses	<u>1,098.1</u>	<u>28,339.6</u>	<u>(27,241.5)</u>
Revenues In Excess of Expenses	<u>\$ 186.3</u>	<u>\$ 238.8</u> *	<u>\$ 52.5</u>

* before budgeted expenditures toward notes payable of \$186k.

The budgeted Revenues in Excess of Expenses shown in Table A-3 are designated to service debt obligations incurred to obtain industrial park properties and a company vehicle. Below, in Table A-4, is a schedule of principal payments that are to be funded from current and future operations.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
JUNE 30, 2011
LONG-TERM DEBT
TABLE A-4

<u>Fiscal</u> <u>Year</u>	<u>Note</u> <u>Principal</u>
2012	\$ 146,293
2013	\$ 154,457
2014	\$ 159,776
2015	\$ 166,291
2016	\$ 175,672

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONT'D)
JUNE 30, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Most companies structure strategic planning with the intent to increase sales to existing customers and to increase the overall customer base thereby producing a higher profit margin and a greater posture for sustained growth. A more appropriate goal for an entity such as the Board is to educate and encourage government officials of its efforts to encourage new and existing economic growth within our community. External factors such as City and County finances will have a great impact on the Board's growth and effectiveness. It is hoped that recent industrial and economic development announcements and a relative increase in prospect activity, despite global economic conditions, demonstrate the Board's ability to expand the workforce in Montgomery County through recruitment of new industries, and that this will lead to a willingness to support the Board as needed in the future.

CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Board's finances. If you have any questions about this report or need any additional information contact the Vice President of Finance and Human Resources, Clarksville-Montgomery County Economic Development Council, P. O. Box 883, Clarksville, Tennessee 37041-0883.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Fund	Adjustments (Note 11)	Statement of Net Assets
<u>ASSETS</u>			
Cash in Banks	\$ 1,372,008		\$ 1,372,008
Certificates of Deposit	590,582		590,582
Accounts Receivable	32,922		32,922
Grant Receivable	133,230		133,230
State Grants Receivable	2,118,261		2,118,261
Notes Receivable	3,376,157		3,376,157
Unbilled Reimbursable Costs	70,151		70,151
Property Held for Sale or Lease	14,250,534		14,250,534
Capital Assets:			
Land and Other Non-Depreciated Assets	-	\$ 37,641	37,641
Other Capital Assets - Net of Accumulated Depreciation	-	1,861,795	1,861,795
Construction in Progress	346,134		346,134
Due from Related Party	18,688		18,688
Total Assets	\$ 22,308,667	\$ 1,899,436	\$ 24,208,103
<u>LIABILITIES</u>			
Accounts Payable	\$ 2,852,377		\$ 2,852,377
Due to City of Clarksville	141,322		141,322
Due to Montgomery County	3,211,189		3,211,189
Unearned State Grant Revenue	373,254		373,254
Due to Related Party	58,807		58,807
Land Sale Options	13,700		13,700
Notes Payable:			
Due within one year	-	\$ 146,293	146,293
Due in more than one year	-	1,610,122	1,610,122
Total Liabilities	6,650,649	1,756,415	8,407,064
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balance (Deficit):			
Nonspendable	17,204,111		
Unassigned	(1,546,093)	143,021	
Total Fund Balance	15,658,018	143,021	
Total Liabilities and Fund Balance	\$ 22,308,667		
Net Assets:			
Invested in Capital Assets, net of related debt			213,978
Unrestricted			15,587,061
Total Net Assets		\$ 1,899,436	\$ 15,801,039

The accompanying notes are an integral part of the financial statements.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Governmental Fund	Adjustments (Note 11)	Statement of Activities
<u>EXPENDITURES/EXPENSES</u>			
Operating Expenses:			
Advertising	\$ 25,247		\$ 25,247
Conferences and Trade Shows	25,219		25,219
Contributions	10,000		10,000
Depreciation	-	\$ 68,391	68,391
Dues and Membership	12,782		12,782
Employee Pensions and Benefits	58,207		58,207
Entertainment	20,583		20,583
Insurance	4,044		4,044
Office and Data Processing Equipment	10,254		10,254
Office Supplies	2,215		2,215
Payroll Taxes	30,344		30,344
Postal Charges	1,019		1,019
Printing and Stationery	864		864
Professional Services	87,071		87,071
Project	27,297,678		27,297,678
Public Relations	1,583		1,583
Rent	20,694		20,694
Repair and Maintenance	40,551		40,551
Salaries	413,967		413,967
Subscriptions	167		167
Supplies	575		575
Telephone	12,990		12,990
Travel	64,621		64,621
Utilities	20,463		20,463
Total Operating Expenses	<u>28,161,138</u>	<u>68,391</u>	<u>28,229,529</u>
Debt Service:			
Principal	293,946	(293,946)	-
Interest	110,045		110,045
Total Expenditures/Expenses	<u>28,565,129</u>	<u>(225,555)</u>	<u>28,339,574</u>
<u>PROGRAM REVENUES</u>			
Net Gains from Sales of Land	159,274		159,274
State Grants	27,240,272		27,240,272
Grant from Aspire Clarksville	178,596		178,596
Total Program Revenues	<u>27,578,142</u>	<u>-</u>	<u>27,578,142</u>
Net Program Expense	<u>986,987</u>	<u>(225,555)</u>	<u>761,432</u>

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES (CONT'D)
YEAR ENDED JUNE 30, 2011

	<u>Governmental Fund</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Activities</u>
<u>GENERAL REVENUES</u>			
Lease and Other Income	360,759		360,759
Montgomery County Subsidy	624,616		624,616
Investment Income	14,790		14,790
Total General Revenues	<u>1,000,165</u>	<u>-</u>	<u>1,000,165</u>
Excess of Revenues over Expenditures/ Change in Net Assets	13,178	225,555	238,733
Fund Balance/Net Assets:			
Beginning of the Year	<u>15,644,840</u>	<u>-</u>	<u>15,562,306</u>
End of the Year	<u>\$ 15,658,018</u>	<u>\$ -</u>	<u>\$ 15,801,039</u>

The accompanying notes are an integral part of the financial statements.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Clarksville-Montgomery County Industrial Development Board (the Board) is a nonprofit corporate agency and instrumentality of Montgomery County, Tennessee, organized under Title 7, Chapter 53 of the Tennessee Code Annotated. The Board has as its main purpose maintaining and increasing employment opportunities and furthering the use of Montgomery County's agricultural products and natural resources by promoting industry, trade, commerce, and construction by inducing manufacturing, industrial, governmental, educational, financial, service, commercial and recreational enterprises to locate in or remain in this area.

The Board is a component unit of Montgomery County, Tennessee, which is the principal reporting entity and primary government. The Board is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of the Board. The County is responsible for appointing the majority of the Board's board of directors and provides its primary funding support. The financial reporting entity of the Board only includes the assets and operations of the Board and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

In fiscal year 1995, the Clarksville-Montgomery County Tourism Commission (Tourism), the Clarksville Area Chamber of Commerce (Chamber), and the Board jointly organized the Clarksville-Montgomery County Economic Development Council (EDC) to develop, coordinate, and implement a comprehensive marketing plan relating to economic prosperity of Clarksville-Montgomery County and the surrounding area. The Board, Tourism, and Chamber evenly share the cost of the EDC director's salary, payroll taxes, benefits, and other operating costs and of expenses related to the general administration of the EDC. All other expenses of the EDC are shared based on usage allocations.

Government-wide and Fund Financial Statements

The government-wide financial statements (the governmental fund balance sheet/statement of net assets and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities) report information on all of the nonfiduciary activities of the Board.

The governmental fund financial statements are shown in combination with the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct operating expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Subsidies and other items that are not properly included among program revenues are reported instead as general revenues.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The Board's only fund is the general fund. It accounts for all of the financial resources of the Board.

The Board follows all pronouncements of the Governmental Accounting Standards Board (GASB) and pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989. The Commission has not elected to follow FASB pronouncements issued after November 30, 1989.

Funding

The Board receives operating subsidies from Montgomery County. A major reduction of funds by this supporting organization could have a significant effect on the future operations of the Board.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates in the near term and those variations could have a material effect on the financial statements.

Concentrations of Credit Risk

Financial instruments that potentially subject the Board to significant concentrations of credit risk consist principally of cash and receivables. The Board is exposed to credit risk by placing its deposits in financial institutions. The Board has mitigated this risk because the bank balance in excess of the FDIC limit is collateralized by the State of Tennessee bank collateral pool. With respect to receivables, credit risk is primarily limited to amounts due from escrow agents in connection with the sale of property and from grantors including Aspire Clarksville and the State of Tennessee.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed and are depreciated over their estimated useful lives, which range from five years for furniture, fixtures and equipment to thirty-nine years for buildings, using the straight-line method. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs are not capitalized.

Property Held for Sale or Lease

Property held for sale or lease is recorded at cost. The cost of property sold is charged to expense using the specific identification method.

Accrued Compensated Absences

Employees are required to use earned vacation days within the fiscal year and sick days are not paid upon separation. Therefore, there are no accrued compensated absences at the financial statement date.

Fund Equity

Beginning with fiscal year 2011, the Board implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or are required to remain intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the Board's governing body, using its highest level of decision-making authority (i.e., the Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the board of directors takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the Board intends to use for a specific purpose. Intent can be expressed by management of the Board.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Summary of Significant Accounting Policies (Cont'd)

Fund Equity (Cont'd)

- Unassigned fund balance – amounts that are available for any purpose.

The details of the fund balances are included in the Governmental Fund Balance Sheet and in Note 16.

It is the Board's policy to use restricted funds first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted or the assignment has been changed by management. Decreases to fund balance first reduce unassigned fund balance; in the event that unassigned fund balance becomes zero, then assigned and committed fund balances are used in that order.

Uncollectible Accounts

Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles.

Date of Management's Review

Subsequent events have been evaluated through December 28, 2011, which is the date the financial statements were available to be issued.

2. Cash and Cash Equivalents

Cash and other deposits are restricted to deposits with federally insured institutions and must be approved by the board of directors.

Custodial credit risk for the Board's deposits is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As required by state statutes, the Board's policy is to require that financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral of 105% for deposits in excess of federal depository insurance. The collateral is required to be held by the Board or its agent in the Board's name. At June 30, 2011, cash and other deposits reported in the financial statements in the amount of \$1,962,590 were represented by bank balances totaling \$1,962,733, all of which were insured by the Federal Deposit Insurance Corporation (FDIC) or the State of Tennessee Collateral Pool.

The Board considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents. Both cash and cash equivalents are carried at cost which approximated fair value at June 30, 2011.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Investments and Other Deposits

Investments and other deposits are restricted by State law to deposits with financial institutions and certain obligations guaranteed by the United States Government. Investments and other deposits are stated at cost or amortized cost, which approximates fair value at June 30, 2011. The following is a summary of the Board's certificates of deposit at June 30, 2011, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificates of Deposit	\$ 590,582	\$ 590,582

4. Notes Receivable from Sale of Land

The Three C Group, LLC note is a non-interest bearing note receivable, secured by a subordinate deed of trust on the eight acres sold and improvements. The Hemlock Semiconductor, LLC (HSC) note is a non-interest bearing note receivable received in exchange for land.

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Three C Group, LLC note	\$ 233,300	\$ 233,300
Hemlock Semiconductor, LLC note	3,142,857	3,928,571
	<u>\$ 3,376,157</u>	<u>\$ 4,161,871</u>

The Three C Group, LLC note is due and payable upon the earlier of: (1) the date Three C Group, LLC obtains a binding lease for all or substantially all of the improvements on the property; or (2) the closing date for sale of the property. The HSC note is due in seven annual installments of \$785,714.29 with the last payment occurring on January 1, 2015.

5. Property Held for Sale or Lease

		<u>At Cost</u>
Land-Park Expansion	893.210 acres available	\$ 12,740,868
Goodpasture Property	20.190 acres available	125,032
Bell Property	54.180 acres available	199,398
Hamill Property	7.750 acres available	44,602
Darnell Property	28.840 acres available	35,949
Homemax Property	2.000 acres available	13,965
Pad-Ready Site	40.000 acres available	<u>1,090,720</u>
Total		<u>\$ 14,250,534</u>

Access property is included in the acres available shown above. All acres are approximate.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Capital Assets

A summary of changes in capital assets and accumulated depreciation follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital Assets				
Equipment	\$ 80,335	\$ -	\$ -	\$ 80,335
Vehicles	36,790	-	-	36,790
Leasehold Improvements	48,793	-	-	48,793
Buildings	1,883,553	-	-	1,883,553
Land	37,641	-	-	37,641
Software	1,385	-	-	1,385
	<u>\$ 2,088,497</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,088,497</u>
	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Accumulated Depreciation				
Equipment	\$ 42,710	\$ 10,229	\$ -	\$ 52,939
Vehicles	11,333	7,358	-	18,691
Leasehold Improvements	11,114	3,253	-	14,367
Buildings	54,936	47,089	-	102,025
Software	577	462	-	1,039
	<u>\$ 120,670</u>	<u>\$ 68,391</u>	<u>\$ -</u>	<u>\$ 189,061</u>

Land is not depreciated or amortized. Capital assets with net book values totaling \$1,883,337 were pledged as collateral for debt at June 30, 2011.

7. Construction in Progress

A summary of changes in construction in progress follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>
Rail to Park Expansion	\$ 267,662	\$ -	\$ -	\$ 267,662
Speculative Building	75,337	3,135	-	78,472
	<u>\$ 342,999</u>	<u>\$ 3,135</u>	<u>\$ -</u>	<u>\$ 346,134</u>

Construction in progress is not depreciated until placed in service.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

8. Land Sale Options

The Board had two land sale options from prospective buyers outstanding at June 30, 2011 and one land sale option was exercised during the year then ended. The first outstanding option, granted in fiscal year 2004, allows the holder to purchase a twenty-acre tract of land at a price of \$16,000 per acre. The option was given for \$6,400 consideration, with \$7,200 additional consideration received in fiscal year 2009 in order to purchase the right of first refusal. This option expires in 2014.

On August 1, 2008, the Board entered into a letter of agreement for the second land sale option in which a developer would purchase or lease a 225-acre lot for the development of approximately two million square feet of Class A bulk warehouse, manufacturing, office and flex distribution space thereon. Once the option is final, the developer will pay \$5,000 initial consideration and \$50,000 earnest money. The purchase price of the lot is \$34,000 per acre. The option will expire five years after being finalized, at which time additional consideration of \$5,000 will be due if the developer has not acquired all of the property. On June 10, 2009, the Board extended the letter of agreement for one year. On June 10, 2010, the Board extended the letter of agreement for an additional year. On May 11, 2011, the Board extended the letter of agreement until December 31, 2011.

The option that was exercised, granted in fiscal year 2006, allowed the holder to purchase twelve acres of land at a price of \$240,000. This option was given for the initial consideration of \$5,000 and additional consideration of \$1,000 payable annually for the next five years. This option was exercised during the fiscal year ended June 30, 2011.

9. Unearned State Grant Revenue

During the fiscal year ended June 30, 2009, the Board was required to prepay the estimated costs to move a gas pipeline. Upon completion of the project during the fiscal year ended June 30, 2010, the vendor refunded approximately \$835,000 in project costs which was credited to unearned state grant revenue. The State of Tennessee allowed the Board to keep these funds in anticipation of any future unforeseen nonreimbursable project-related expenses. As of June 30, 2011, the unexpended portion of the unearned state grant revenue was \$373,254.

10. Notes Payable

Notes payable consists of the following:

	2011	2010
Note payable bearing interest at a fixed rate of 5.5% secured by approximately 55.29 acres of land; principal and interest are payable in quarterly installments, maturing March 25, 2013.	\$ -	\$ 105,632
Note payable bearing interest at 5.5% secured by land and a building; principal and interest paid in monthly installments, maturing May 2021.	1,743,358	1,926,647

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Notes Payable (Cont'd)

	2011	2010
Note payable bearing interest at 3.9% secured by a vehicle; principal and interest are payable in monthly installments, maturing November 2013.	13,057	18,082
Total Notes Payable	1,756,415	2,050,361
Less: Current Portion	146,293	175,003
Total Notes Payable Excluding Current Portion	\$ 1,610,122	\$ 1,875,358

Changes in notes payable (including current portions) for the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Estimated Amount Due in Year Ending June 30, 2012
Notes Payable	\$ 2,050,361	\$ -	\$ 293,946	\$ 1,756,415	\$ 146,293

Future payments on notes payable are as follows:

Year Ending June 30,	Total Principal	Total Interest
2012	\$ 146,293	\$ 95,388
2013	154,457	87,223
2014	159,776	78,634
2015	166,291	69,732
2016	175,672	60,352
2017-2021	953,926	141,538
Total	\$ 1,756,415	\$ 532,867

11. Adjustments to Governmental Fund Statements

Governmental Fund Balance Sheet to the Statement of Net Assets:

When capital assets that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Board, net of related accumulated depreciation. The statement of net assets also includes the debt related to the capital assets and other debt among the liabilities of the Board.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

11. Adjustments to Governmental Fund Statements (Cont'd)

Cost of capital assets	\$ 2,088,497
Less: Accumulated depreciation	<u>189,061</u>
Net capital assets	<u>\$ 1,899,436</u>
Debt related to capital assets:	
Current portion of note payable	\$ 135,689
Long-term portion of note payable	<u>1,549,769</u>
Total debt related to capital assets	<u>1,685,458</u>
Other debt:	
Current portion of note payable	10,604
Long-term portion of note payable	<u>60,353</u>
Total other debt	<u>70,957</u>
Total debt	<u>\$ 1,756,415</u>

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Proceeds from the sales of capital assets are excluded from the statement of activities since the proceeds are not a gain or loss associated with the sale. Governmental funds record borrowings as revenue and the principal portion of debt repayment as an expense, while the statement of net assets records borrowings as a liability and the statement of activities records the interest portion of payments as an expense.

Depreciation expense	\$ (68,391)
Debt service principal	<u>293,946</u>
	<u>\$ 225,555</u>

12. Operating Leases

Beginning December 2006, the Board began subleasing office space in the Green Bank building from the EDC under a five-year agreement. Rental expense under the operating lease was \$19,998 for the year ended June 30, 2011. This lease expires in November 2011. The Board intends to extend the lease for an additional five years.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

12. Operating Leases (Cont'd)

Future payments on lease obligations are as follows:

2012	\$ 19,565
2013	24,444
2014	26,667
2015	26,667
2016	26,667
After 2016	<u>8,889</u>
	<u>\$132,899</u>

13. Lease Contracts

On June 27, 2008, the Board entered into a lease contract with the State of Tennessee (the State) for rental of a medical office building. The lease contract began January 1, 2009 and ends December 31, 2020. Under the terms of the lease, the State makes monthly lease payments to the Board of \$21,542. The State has one option to renew the lease for an additional ten years with monthly rent of \$15,866.

Future cash flows from this lease contract are expected to be as follows:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2012	\$ 258,513
2013	258,513
2014	258,513
2015	258,513
2016	258,513
2017 and Thereafter	1,163,309

14. Retirement Plan

EDC maintains a defined contribution 401(k) plan administered by American Chamber of Commerce Executives (ACCE) under which employees of the Board can participate. Substantially all employees who have completed one year of service, reached age 21 and work one thousand hours or more per year are eligible to participate. For each plan year that an employee participates, the Board will contribute an amount equal to four percent of the participant's total annual earnings as the employer basic contribution. Employees can make pre-tax contributions from one to one hundred percent of total annual earnings in which they are immediately vested. The Board will match one hundred percent of pre-tax contributions up to a maximum of four percent as the employer matching contribution. With regard to contributions of the Board, vesting occurs immediately.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

14. Retirement Plan (Cont'd)

During the fiscal years ended June 30, 2011 and 2010, contributions totaling \$31,033 and \$15,176, respectively, were paid and expensed by the Board. Employee contributions to the plan were \$20,857 and \$18,999 for the years ended June 30, 2011 and 2010, respectively.

15. Related Party Transactions

The Board paid EDC \$256,845 for its share of EDC expenses during the year ended June 30, 2011. The Board had related party payables at June 30, 2011 totaling \$58,807, and related party receivables of \$18,688. Included in related party receivables at June 30, 2011 is \$17,000 that was advanced to the EDC to facilitate payment of routine Board expenses and is not expected to be collected within one year.

16. Fund Balance

The Board had unassigned fund balance (deficit) of (\$1,546,093) and nonspendable fund balance of \$17,204,111 at June 30, 2011. Nonspendable fund balance consisted of the following:

Long-term portion of notes receivable	\$ 2,590,443
Property held for sale or lease	14,250,534
Construction in progress	346,134
Long-term portion of due from related parties	<u>17,000</u>
Total nonspendable fund balance	<u>\$ 17,204,111</u>

17. Conduit Debt Obligations

The Board has participated in several issues of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The Board is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The principal balances outstanding as of June 30, 2011 totaled \$604,919,229.

18. Annual Budget Procedures

There is no requirement for the Board to legally adopt a budget. However, an annual budget is prepared by management and approved by the Board of Directors. The budget is prepared using the cash basis of accounting and is primarily used as a cash management tool. The board members review the Board's needs for the year as well as prior year expenditures to arrive at the current year budget. There is no requirement that the budget be amended for variances that are inconsequential and which occur as the result of normal operations. The "encumbrance" method of budgeting and accounting for expenditures is not used.

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
NOTES TO FINANCIAL STATEMENTS (CONT'D)

19. Commitments and Contingencies

Under terms of an interlocal agreement among Montgomery County, Tennessee, the City of Clarksville, Tennessee and the Board, the sales price of property held for sale or lease will be split 90% to the City and 10% to the Board. Any revenue in excess of the first \$10,000 per acre (per transaction) will be split 45% to the City, 45% to the County and 10% to the Board. The splitting of the proceeds will remain in effect until such time as either the City annexes the land being purchased for expansion or the City has recovered its investment, which shall include interest paid.

After such time as the City has either annexed the land being purchased or recovered its investment, the sale of the land shall be divided equally between the City and County after 10% is deducted for the Board. At June 30, 2011, there was an accrued liability of \$141,322 to the City and \$68,332 to the County for sales of land that took place during the fiscal year ended June 30, 2008.

The Board's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2011

<u>State Grantor/Program Title</u>	<u>Contract Period</u>	<u>Grant Number Or Pass Through Grantor's Contract Number</u>	<u>Accrued Receivable July 1, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Accrued Receivable June 30, 2011</u>
<u>State of Tennessee Economic & Community Development</u>						
Community Development	03/12/09 - 06/30/13	BC8311	\$ 5,901,427	\$ 30,739,262	\$ 26,966,096	\$ 2,128,261
Community Development	02/09/09 - 01/31/14	GG-09-273.00-00	25,585	49,911	24,326	-
Community Development	01/26/10 - 12/31/14	GG-10-314.11-00	85,154	192,093	106,939	-
Total			<u>\$ 6,012,166</u>	<u>\$ 30,981,266</u>	<u>\$ 27,097,361</u>	<u>\$ 2,128,261</u>

CLARKSVILLE-MONTGOMERY COUNTY
INDUSTRIAL DEVELOPMENT BOARD
DIRECTORY OF BOARD MEMBERS AND MANAGEMENT (UNAUDITED)
JUNE 30, 2011

BOARD MEMBERS

	<u>Term Expires</u>
Mr. Mark Briggs, Chairman	June 2013
Dr. Linda Rudolph, Vice Chairman	June 2013
Ms. Kay Drew, Secretary-Treasurer	June 2013
Mr. John Wallace Crow	June 2015
Mr. Don Jenkins	June 2015
Mr. William B. Linscott	June 2011
Mr. Bryce Sanders	June 2011
Mr. Carl Wilson	June 2015
Ms. Niesha Wolfe	June 2011

Mr. Richard Batson, Legal Counsel, Ex-Officio
County Mayor Carolyn Bowers, Ex-Officio
Mr. Mike Evans, Ex-Officio
Dr. Tim Hall, Ex-Officio
City Mayor Kim McMillan, Ex-Officio

MANAGEMENT

Mr. James Chavez, President and CEO
Mr. Mike Evans, Executive Director
Mr. Shannon Green, Vice President of Finance and Human Resources

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Clarksville-Montgomery County Industrial Development Board
Clarksville, Tennessee

We have audited the financial statements of the governmental activities and the major fund of the Clarksville-Montgomery County Industrial Development Board (the Board), as of and for the year ended June 30, 2011, which collectively comprise the Board's basic financial statements and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described on the following page, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described on the following page as finding 2011-1 to be a material weakness.

The Board did not resolve prior year finding number 2010-1. The finding recurred in the current year and is reported as finding 2011-1.

2011-1 (Recurring finding) Management Oversight of Financial Reporting: We noted a lack of management oversight over financial reporting that includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP). Ten adjusting entries and three reclassifying entries were required for the financial statements to be presented in conformity with GAAP. Four of the ten adjusting entries were calculated by management.

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

Management Response: A cost-benefit analysis of the financial reporting process deemed it cost-prohibitive to obtain third-party assistance prior to the independent audit to prepare financial statements and footnotes in accordance with generally accepted accounting principles. However, we believe that our knowledge and experience enables us to review the report and understand it fully. We take full responsibility for the financial statements and all adjusting and reclassification entries.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Board's response to the finding identified in our audit is described above. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board members, management, and officials of Montgomery County and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Stone Rudolph & Henry, PLC

December 28, 2011